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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY



May 9, 1994

BY MESSENGER

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: Gen. Docket No. 90-314, PP Docket 93-253

Dear Mr. Caton:

Columbia PCS, Inc. ("Columbia"), pursuant to Section 1.1206 (a) (2) of the Commission's Rules, 47 C.F.R. S 1.1206 (a) (2) (1992), hereby notifies the Commission that representatives of Columbia met with Messrs. Donald H. Gips and Greg Rosston of the Office of Plans and Policy and Peter A. Tenhula, Esq. of the Office of General Counsel on May 4, 1994. The matters discussed are contained in Columbia's written submission filed on April 22, 1994 in Gen Docket 90-314. In addition, the attached letter was provided to Messrs. Gips, Rosston and Tenhula.

Please direct any inquiries concerning this matter to the undersigned.

Sincerely,

A handwritten signature in cursive script that reads "John A. Malloy".

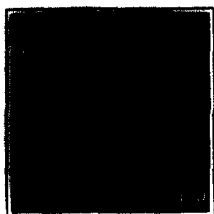
John A. Malloy
General Counsel

cc: Mr. Donald H. Gips
Mr. Greg Rosston
Peter A. Tenhula, Esq.

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY



May 9, 1994

Donald H. Gips
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20544

Dear Don:

Thank you for meeting with Columbia PCS, Inc. last Monday. As follow up to our conversation, I'd like to clarify some of the points we discussed.

A. Proceed with Broadband Auction for SWMR Set Aside Using 8(a) Contractor.

The 8(a) auction contractor selected for narrowband PCS provides a ready made solution to begin broadband PCS auctions as well. Additionally, starting the broadband auction with the SWMR band has numerous political, policy and practical advantages. The FCC will be better able to satisfy Congress' time requirements as established in the Omnibus Budget Act of 1993. Small businesses, women and minority owned businesses and rural telcos are the licensees with greatest market requirements to begin offering PCS services immediately. This definitive step should solidify the financial markets support for investment in these designated entities and allow fund raising to begin in earnest. The SWMR band auction will also allow the FCC to further refine the process for the larger auctions to follow.

B. Allow Flexible Financial Mechanisms and Reasonable Investor Protections but Maintain Control.

Clear guidelines are desperately needed so that designated entities can begin the crucial work of raising capital. All parties agree that broadband PCS is extraordinarily capital intensive. Capital requirements for broadband PCS are greatest for designated entities and represent the single most formidable barrier to entry. Unlike their potential competitors, designated entities, as new entrants to telecommunications, are almost wholly dependent on capital markets for investment. As point of contrast, I've attached a recent article that recounts MCI's ability to raise \$20 Billion internally and estimates the seven Bell operating companies will have net cash flows of approximately \$37 Billion in 1994. (Financial World, May 5, 1994, pg. 9).

Of equal importance to designated entities is the FCC's charter to prevent unjust enrichment and related abuse. Designated entities, as bona fide operators in need of significant capital investment, can least afford a taint of potential impropriety. Columbia PCS strongly believes that the FCC can prevent unjust enrichment without jeopardizing the abilities of bona fide operators to raise capital. The recapture provisions of the general rules coupled with specific license requirements for broadband PCS can provide a sufficient deterrent to sham applicants.

The threshold issue for both the FCC and designated entities is the preservation of control by the qualified licensee. In balancing this need for control with the capital requirements of designated entities, it is crucial that the full array of financing mechanisms remain available. For example, limited partnerships are recognized mechanisms used to raise capital but still retain control with the general partner. Control and equity ownership of 50.1% by the designated entity in the general partner addresses the policy need to maintain actual control in the licensee but still provides financial flexibility necessary to raise capital. Conversely, a requirement of 50.1% total equity ownership in this capital intensive business is so limiting that it will actually preclude any equity participation by small businesses, women owned and minority owned businesses.

In addition to flexible financial mechanisms, designated entities will need to provide the capital markets with reasonable protections for their sizable investments. In delineating what constitutes control, the FCC must allow for investor protections that don't impact operative control of the licensee. Reasonable limitations on a General Partner that fix the investors' obligations, prevent dilution, and avert material departures from the applicant's business plan are distinguishable from operative control. For example, a requirement to obtain approval from limited partners for bids beyond a certain pricing plan is an entirely reasonable protection that does not give operative control to the limited partners. Another reasonable protection would be a requirement of limited partner approval to enter into any business other than the acquisition, ownership and operation of PCS systems.

C. Allocate 30 MHz in the Lower Band.

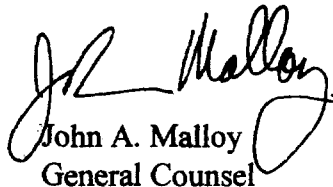
The size and location of the allocation are most crucial to designated entities as the licensees with the greatest market requirements to get to market quickly. Equipment already exists for the lower band. Designated entities will have neither the capital resources nor initial consumer demand necessary to drive development of equipment for the upper band. The size of the allocation is important since most technical assessments have indicated that 30MHz is sufficient initially to route around the microwave incumbents. This initial ability to co-exist with in-band incumbents is crucial due to the limited resources of the designated entities.

Page Three

An allocation of 30 Mhz also affords greater capital efficiencies than 20 MHz. Over a ten year period, 30 MHz will result in more than 12% savings in capital expenditures and nearly 2% savings in operational expenses. As the attached analysis for just the Boston BTA demonstrates, an allocation of 30MHz instead of 20MHz means potential savings of \$20.6 Million and \$15.5 Million, respectively, over a ten year period.

In summary, Columbia PCS thanks you for your attention to these matters. We appreciate the significance and magnitude of the tasks before the FCC and look forward fulfilling the promise of broadband PCS.

Sincerely,



John A. Malloy
General Counsel

cc: Mr. Donald H. Gips
Mr. Greg Rosston
Mr. Peter A. Tenhula, Esq.

Enclosures

The \$20 Billion Shortout

MCI's financing strategy shows why investors may not enjoy the spoils along the information highway.

by Anthony Baldo

"THERE'S A TREMENDOUS APPETITE IN THE capital markets to invest in what most people think will be the industry of the 21st century," says Douglas Maine, MCI Communications' chief financial officer, referring to the much celebrated information highway. "Up until now, the U.S. and Japanese markets have done the bulk of the financing in this area. But as time goes on and other nations wake up to the telecommunications explosion, I think you'll have a large influx of capital from other sources."

Maybe. But don't expect MCI and the other major players to come looking for all that money any time soon.

MCI, the \$12 billion-leases company that controls 20% of the \$65 billion long distance phone market in the U.S., recently announced a six-year, \$20 billion plan to get on the data road. But the company, which recently completed a mammoth \$950 million debt offering to replace short-term borrowings with longer-term ones, won't be going to the capital markets to finance it in the near future. MCI plans to pay for the project out of cash flow and with money it will receive from partners it has recently taken on.

Call it the \$20 billion shutout.

And MCI isn't alone. Other likely data highway participants, such as the regional Bells, probably won't have to float lots of new debt or equity, either.

The seven Bell operating companies, for instance, spent nearly \$15 billion on capital expenditures

last year, but had pretax cash flow of close to \$35 billion with which to fund them. And Klöder, Peabody estimates that while capital expenditures for the Bells will rise to \$15.3 billion this year, earnings before interest, taxes and de-

preciation—in other words, cash flow—will jump to \$37 billion. That's more than enough to lay the infrastructure for the communications highway.

The upshot of all this? Institutional and other investors wanting to get in on the telecommunications bonanza may be forced to buy the debt and equity that already trades.

A closer look at the financing MCI has in place will help explain why.

While MCI doesn't have the prodigious cash flow the Bells have, its position is nothing to sneeze at. MCI generates in excess of \$2 billion in operating cash flow each year, enough to spend the \$1 billion to \$2 billion it needs annu-



MCI CFO Douglas Maine
"We're in the catbird seat."

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One huge advantage MCI has is that its dividend payout ratio is a paltry 4.8%, compared to AT&T's 42%, Sprint's 50% and the 60% to 80% the regional Bells average. "We take most of our internally generated cash flow and put it back into the business itself," says Maine, who estimates that MCI's cash flow will double by the end of the decade. "That's a major difference, compared to others."

Besides its own healthy cash flow, MCI has already received \$800 million from British Telecommunications and will get another \$3.5 billion this summer. In return, BT will end up with a 20% stake in the company.

Other deals are pending. Just who those other investors will be, Maine won't say. "We have a wide array of discussions going on with potential partners," he says. "And in most respects, we feel we are in the catbird seat when it comes to many of these partnerships. More individuals are calling us than we are calling them, at least right now."

Moody's Investors Service agrees with Maine's assessment. In February, when it upgraded MCI's senior debt rating to A2 and its short-term rating to P-1, it noted that "a risk-sharing strategy of joint ventures and alliances, and more conservative balance sheet management, will define the company in the future."

Still, the decision to try to finance expansion internally is harsh stuff, given that MCI plans to take on the regional Bells in providing local telephone service. MCI will spend \$4 billion to build fiber rings and local switching infrastructure in 20 U.S. cities over the next three to five years.

The idea is to bring competition to the local access

market, where MCI and other long distance carriers must pay 46 cents on every revenue dollar, or roughly \$23 billion annually, to the regional Bells to have their calls travel from their long distance lines directly into a home or business.

Bert Roberts, CEO of MCI, estimates that if local access rates drop just 10%, \$536 million a year will immediately drop to the company's bottom line.

While the local access project has gotten lots of headlines, other expensive projects are in the works. MCI will sink \$450 million into building a fiber optic network in Mexico, where it has linked up with Banacel, that nation's largest financial institution. And MCI is paying \$1.3 billion for a 17% piece of Nextel Communications, an East Rutherford, N.J., wireless communications company, as part of its plan to build a national digital wireless personal communication system. MCI has even announced plans to provide long distance service to Cuba.

As you can see from all these projects, MCI's strategic vision has changed. For years the company focused narrowly on long distance. "What MCI is doing now takes two forms," says Stephen Guskowski, a vice president with Moody's Investors Service. "It plans to provide local alternative access. And with Nextel, MCI is trying to get another way of getting direct access to customers by bypassing local operators."

MCI's foray into local markets will not be as easy. Local telephone infrastructure is complex and difficult to build. And then there's the regulatory hoops that long distance carriers will have to jump through to provide local service. Currently, only four states allow other carriers to compete with the Bells in the local service market. (Just recently, however, AT&T filed a petition with Illinois regulators to test-market some local services. Doing so would

encroach on Ameritech's turf.)

"We're not kidding ourselves when it comes to entering the local market," Roberts told an industry conference recently. "How quickly—and how effectively—we can put an infrastructure in place is going to depend on how willing the state and federal regulators are to move toward effective competition in the local exchange."

Still, MCI wouldn't have doubled its market share in the long distance market to its current fifth of the market in less than a decade if it weren't a stout competitor. And its balance sheet only makes it more formidable.

Indeed, the company's balance sheet is impressive, given that debt was only 37% of capital at the end of 1993. That figure could get as low as 30% by the end of the summer, even with the recent offering.

For some, the financial flexibility that comes with a 30% debt-to-capital ratio is a double-edged sword. "MCI has always been a company driven by returns to the shareholder," says Robert Waldman, a fixed-income telecommunications analyst for Solomon Brothers. "It seems to me that unless there is a very substantial increase in net income, it'll be hard for them to get the 20%-plus re-

turn on equity that they've been scooping up over the past few years."

Analysts expect recurring earnings to rise about 7% or 8% this year, to about \$1.40 a share. Obviously, bigger earnings could come if progress is made on the local access front. But Maine acknowledges that more leverage at some point will hit the balance sheet, helping boost return on equity.

"Long term, MCI would like to operate with a debt ratio of 45% to 55% of capitalization," he says.

Yes, that could mean some debt offerings—at some point. But that's small consolation to those who were hoping for some fresh paper to invest in now. ■

“We take most of our internally generated cash flow and put it back into the business itself.”

**IMPACT ON COSTS DUE TO
AMOUNT OF FREQUENCY ALLOCATED**
Scenario with 6% Year 10 Penetration.

Frequency Allocated	30 MHz	20 MHz	Dollar Difference	Percentage Difference
Cumulative Capital Expenditures over Ten Years	\$165.0	\$185.6	\$20.6 Millions	12.5%
Cumulative Capital Expenditures Per Pop Over Ten Years	\$39.31	\$44.21	\$4.90 Actual	12.5%
Cumulative Expenses Over Ten Years	\$821.4	\$836.9	\$15.5 Millions	1.9%

Assumptions

Basic Trading Area	Boston	Boston
Subscriber Monthly Air-Time	680	680
Percentage of Traffic in Peak Busy Hour	20%	20%
Year Ten Penetration Rate	6.0%	6.0%
Number of Base Stations in Year Ten	236	353